

International Trade AP Quiz (2)

Part I – Comparative Advantage. Use the information below for questions 1-4.

	Cars	Oranges
Detroit	300	100
Miami	200	100

- Who has absolute advantage in cars?
- Who has absolute advantage in oranges?
- Calculate the opportunity cost for each city in producing oranges.
- If these two cities were to engage in trade, who should produce cars and who should produce oranges and why?
- Assume terms of trade are set at 1 car = 1 orange. Explain whether or not BOTH cities would benefit and explain why.

Part II – Use the information below about exports from Argentina and China to answer questions 5 and 6.

Argentina's top EXPORTS	China's top EXPORTS
soybeans, gas, petroleum, corn, wheat	electrical items and machinery, data-processing equipment

- Based on this information in which *factor of production* does Argentina seem to have comparative advantage? *How can you tell?*
- Based solely on this information, would Argentina and China make good trading partners? *Why?*

Part III – For numbers 7-10, identify what kind of trade barrier is being described.

- South Africa limits the number of imported diamonds to 1million per year.
- The United Arab Emirates pays its oil producers to double their production.
- The United States agrees to continue to prohibit all trade to North Korea.
- Sri Lanka announces it will only accept Tea that has been grown naturally.

Part IV – After each trade barrier, describe how the DOMESTIC PRODUCER, DOMESTIC CONSUMER, and FOREIGN PRODUCER are affected. Domestic = United States.

- The U.S. Government removes a \$10 tariff on imported make-up and cosmetics.
- The U.S. Government pays U.S. car manufacturers \$1,000 for every car they produce and sell.

Part V - Use the Exchange Rate Table below to answer questions 13-15.

	US Dollar	Yen	Rupee	Euro
US Dollar	1	.0104	.020	1.25
Yen	95.95	1	1.96	120.18
Rupee	49	.511	1	61.377
Euro	.79	.0083	.016	1

- How many Euros can I get for 1 rupee?
- Joe has 1 US Dollar. How many Rupees can he get for that?
- Is the US Dollar or Yen a stronger currency when it comes to buying other currencies? How do you know?
- Which is the strongest currency on the chart? How do you know?

Part VI – If the US dollar DEPRECIATES against other world currencies, are the following parties hurt or helped and why?

- A European school group about to take a class trip to the US.
- Miranda - who lives in the US - but drives over the border to work in Canada and gets paid in Canadian Dollars.
- A U.S. citizen holding another Government's savings bonds.

Part VII – Multiple Choice. Write the letter of the correct answer.

- The United States buys \$10million worth of Indian Jewels. How is this transaction recorded in US records?
 - \$10million will be added to the balance of trade and subtracted from the balance of payments.
 - The balance of payments will not be affected and the balance of trade will decrease.
 - Both the balance of trade and the balance of payments will reduce by \$10 million.
 - Only the balance of trade is affected by this transaction.
- In terms of organization and purpose, ASEAN has the MOST in common with
 - NAFTA.
 - FDIC.
 - the FED.
 - the EU.
- What is MOST LIKELY to happen to US imports and exports if the US dollar becomes stronger relative to other currencies?
 - imports will increase, exports will decrease
 - imports will decrease, exports will increase
 - both imports and exports will increase
 - both imports and exports will decrease

Part VIII – Graphing. Graph BOTH SIDES of the foreign currency market in the following situations.

- A headline reports a major counterfeit crisis spreading throughout Japan. (The other market in this case is “other world currencies”).
- Brazilian banks are paying extremely high interest rates to lure investors from Mexico.

International Trade AP Quiz (2)

Part I – Comparative Advantage. Use the information below for questions 1-4.

	Cars	Oranges
Detroit	300	100
Miami	200	100

- Who has absolute advantage in cars? **Detroit**
- Who has absolute advantage in oranges? **Neither**
- Calculate the opportunity cost for each city in producing oranges. **D: 1 orange = 3 cars, M: 1 orange = 2 cars**
- If these two cities were to engage in trade, who should produce cars and who should produce oranges and why? **Detroit should make cars and Miami should make oranges because the opportunity cost is lower in for each of those situations.**
- Assume terms of trade are set at 1 car = 1 orange. Explain whether or not BOTH cities would benefit and explain why.
Detroit – YES. One car cost them 1/3 of an orange. They can trade that car for 1 orange. Miami – NO. One orange costs them 2 cars, but they would only get one in return.

Part II – Use the information below about exports from Argentina and China to answer questions 5 and 6.

Argentina's top EXPORTS	China's top EXPORTS
soybeans, gas, petroleum, corn, wheat	electrical items and machinery, data-processing equipment

- Based on this information in which *factor of production* does Argentina seem to have comparative advantage? *How can you tell?*
Clearly land because all of their top exports are natural resources.
- Based solely on this information, would Argentina and China make good trading partners? *Why?*
Yes, because they export different types of goods, implying differing comparative advantages.

Part III – For numbers 7-10, identify what kind of trade barrier is being described.

- South Africa limits the number of imported diamonds to 1million per year. **Quota**
- The United Arab Emirates pays its oil producers to double their production. **Subsidy**
- The United States agrees to continue to prohibit all trade to North Korea. **Embargo**
- Sri Lanka announces it will only accept Tea that has been grown naturally. **Standard**

Part IV – After each trade barrier, describe how the DOMESTIC PRODUCER, DOMESTIC CONSUMER, and FOREIGN PRODUCER are affected. Domestic = United States.

- The U.S. Government removes a \$10 tariff on imported make-up and cosmetics.
DP – hurt, DC – helped, FP - helped
- The U.S. Government pays U.S. car manufacturers \$1,000 for every car they produce and sell.
DP – helped, DC – helped, FP - hurt

Part V - Use the Exchange Rate Table below to answer questions 13-15.

	US Dollar	Yen	Rupee	Euro
US Dollar	1	.0104	.020	1.25
Yen	95.95	1	1.96	120.18
Rupee	49	.511	1	61.377
Euro	.79	.0083	.016	1

- How many Euros can I get for 1 rupee? **.016**
- Joe has 1 US Dollar. How many Rupees can he get for that? **49**
- Is the US Dollar or Yen a stronger currency when it comes to buying other currencies? How do you know? **Dollar, it buys more of all other currencies**
- Which is the strongest currency on the chart? How do you know? **Euro, it has the highest exchange rate in all currencies.**

Part VI – If the US dollar DEPRECIATES against other world currencies, are the following parties hurt or helped *and why?*

- A European school group about to take a class trip to the US.
HELPED, they can get more dollars on their trip.
- Miranda - who lives in the US - but drives over the border to work in Canada and gets paid in Canadian Dollars.
HELPED, she get's paid in the appreciating currency, but uses the depreciating currency for most daily purchases.
- A U.S. citizen holding another Government's savings bonds.
HELPED, the other bonds will be denominated in appreciating currency.

Part VII – Multiple Choice. Write the letter of the correct answer.

- The United States buys \$10million worth of Indian Jewels. How is this transaction recorded in US records?
 A \$10million will be added to the balance of trade and subtracted from the balance of payments.
 B The balance of payments will not be affected and the balance of trade will decrease.
 C **Both the balance of trade and the balance of payments will reduce by \$10 million.**
 D Only the balance of trade is affected by this transaction.
- In terms of organization and purpose, ASEAN has the MOST in common with

- NAFTA.
- FDIC.
- the FED.
- the EU.**

- What is MOST LIKELY to happen to US imports and exports if the US dollar becomes stronger relative to other currencies?
 A imports will increase, exports will decrease
 B imports will decrease, exports will increase
 C both imports and exports will increase
 D **both imports and exports will decrease**

Part VIII – Graphing. Graph BOTH SIDES of the foreign currency market in the following situations.

- A headline reports a major counterfeit crisis spreading throughout Japan. (The other market in this case is “other world currencies”).
In the market for yen: DEMAND DECREASES
In the market for other currencies: SUPPLY DECREASES
- Brazilian banks are paying extremely high interest rates to lure investors from Mexico.
In the market for Brazilian Reals: DEMAND INCREASES
In the market for Mexican Pesos: SUPPLY INCREASES